UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

[redacted]

UNITED STATES OF AMERICA, Plaintiff,	**INDICTMENT** CR 12-27 JRT/JJG
v.	(18 U.S.C. § 2) (18 U.S.C. § 371) (18 U.S.C. § 1341) (18 U.S.C. § 1343) (18 U.S.C. § 1949) (18 U.S.C. § 1957)
1. RICHARD SCOTT SPADY, and 2. MICHELE DENISE SENGSTOCK, Defendants.	

THE UNITED STATES GRAND JURY CHARGES THAT:

1. At all times material to this indictment:

   a. Defendant RICHARD SCOTT SPADY ("SPADY") was a resident of the State of Minnesota.

   b. Defendant MICHELE DENISE SENGSTOCK ("SENGSTOCK") was a resident of the State of Minnesota.

   c. Unified Home Solutions ("UHS") was a Minnesota entity owned and operated by SPADY. SPADY held UHS out as a non-profit business purportedly helping homeowners rescue their homes from foreclosure. In fact, SPADY operated UHS for profit and never obtained tax exempt or charitable status.

   d. American Mortgage Lenders ("AML") was a Minnesota entity owned and operated by SPADY. AML operated at least in part as a mortgage brokerage company facilitating real property loan transactions.

   e. MLAA Holdings LLC was a Minnesota entity owned and operated by SENGSTOCK.

<u>**The Scheme to Defraud**</u>

2. From sometime in 2005 until in or about October 2007, the defendants conceived, planned, and executed a conspiracy and scheme to defraud financial institutions and homeowners under the guise of a foreclosure rescue program that was, in fact, an equity stripping and mortgage fraud scheme.

3

3. The scheme worked as follows. SPADY or an associate acting on SPADY's behalf would identify a homeowner ("the original homeowner") facing mortgage foreclosure or already in foreclosure proceedings. The original homeowner was told that UHS offered a program ("the UHS program") to avoid foreclosure or rescue the home from ongoing foreclosure proceedings. As described to most original homeowners, UHS would identify a third party ("investor") who would purchase the home with the expectation that the home would be sold back to the original homeowner after one or two years. During this time, the original homeowner was supposed to have time to regain his or her financial footing, rebuild credit if necessary, and eventually be in a position to afford regular mortgage payments. The original homeowner was told that they might be required to pay rent to the investor would and be responsible for maintenance and upkeep, but could continue to live in the home. Some original homeowners were not told that the home would actually be sold and some original homeowners only learned that their home was being sold to the investor at the time of closing.

4. Original homeowners, while facing foreclosure due to a present inability to pay their mortgage, still had some equity: the value of the home above and beyond any mortgages or liens against the property. When their home was sold to the investor, the original homeowner received a check representing the equity. The original homeowners had either been told that there was no equity in their home, or were told that the equity check had to be

negotiated over to the investor. Without signing over the equity, original homeowners would not be allowed to participate in the UHS program or live in the home.

5. The original homeowners' equity was then stripped. Once the original homeowner had surrendered control of the proceeds of the sale, SPADY and the investor controlled the funds. Investors were paid a "risk fee" for their role in the transaction, typically 3% of the sale price; a substantial portion of the remaining equity was paid to UHS; and equity funds were used to repay the investors for their downpayments and for monthly payments on the new mortgage obtained to buy the property. Some original homeowners were required to pay rent to the investor in addition to having their equity used to pay the investor's monthly mortgage payments. The original homeowners were not fully and truthfully told that their equity would be lost, that UHS would be receiving a significant part of their equity, or that the investors would be paid proceeds from their equity and have free reign to spend the equity for other purposes.

6. SPADY misled the original homeowners as to the likelihood of success. Throughout the promotion and implementation of the UHS program, SPADY continually assured original homeowners that it was a successful, proven way to avoid foreclosure. In fact, only approximately six percent of the original homeowners that used the UHS program were ever able to repurchase their homes, and those few still lost their built-up equity in the process.

7. SPADY and his associates made material misrepresentations to and concealed material information from lenders financing the investors' purchases of the homes. Through AML, SPADY and his associates provided false information to lenders about investors' financial circumstances, assets, and liabilities. SPADY arranged to provide down payment funds for investors and was repaid by investors, after closing, from the original homeowners' equity. SPADY and others concealed from lenders the payments being made to investors outside of closing; payments to UHS and SPADY made from sale proceeds outside of closing; and the assistance to investors in connection with their down payments on the loans. This was material information to lenders.

8. Before or after the sale of certain homes to an investor, scheme participants took other actions without disclosing to the original homeowner that the actions would deprive the original homeowner of equity or make it more difficult to buy the home back at the end of the purported rescue period. This included, for example, borrowing additional funds after closing secured by a home purchased by an investor and filing fraudulent liens in favor of MLAA Holdings LLC and against a property being considered for the UHS program.

9. Through the scheme, lenders and original homeowners were defrauded out of more than $8,000,000, including stripped equity and loans obtained by fraud.

COUNT 1
(Conspiracy to Commit Mail and Wire Fraud)

10. Paragraphs 1-9 are hereby realleged and incorporated by reference.

11. From in or about October 2005 and continuing until on or about October 31, 2007, both dates being approximate and inclusive, in the State and District of Minnesota, the defendants,

RICHARD SCOTT SPADY and
MICHELE DENISE SENGSTOCK,

did unlawfully and knowingly combine, conspire, and agree with each other and others known and unknown to commit an offense against the United States, namely,

> having devised and intending to devise a scheme and artifice to defraud, and to obtain money by means of false and fraudulent pretenses, representations, and promises and for the purpose of executing the scheme and artifice, and attempting to do so, placed and caused to be placed in post offices and authorized depositories for mail matter and deposited and caused to be deposited to be sent and delivered by private or commercial interstate carrier, matter and things to be sent and delivered according to the directions thereon, in violation of Title 18, United States Code, Section 1341; and

> having devised and intending to devise a scheme and artifice to defraud, and to obtain money and property by means of false and fraudulent pretenses, representations, and promises, for the purpose of executing the scheme and artifice, and attempting to do so, transmitted and caused to be transmitted by means of wire communication in interstate commerce, any writings, signs, signals, pictures and sounds, in violation of Title 18, United States Code, Section 1343.

PURPOSE OF THE CONSPIRACY

12. The purpose of the conspiracy was to defraud lenders financing the sale of property and homeowners seeking to rescue

their homes from foreclosure, including but not limited to the stripping of homeowners' equity.

MANNER AND MEANS

13. The manner and means of the conspiracy included among other things:

a. locating homeowners facing foreclosure and third parties willing to buy the properties;

b. misrepresenting the tax exempt status and purpose of UHS;

b. fraudulently obtaining loans to buy the properties;

c. defrauding original homeowners by misrepresenting the UHS program, acting inconsistently with the representations that had been made, and taking other actions to undermine the ability of original homeowners to repurchase their homes; and

d. obtaining fraudulent liens against properties being considered for purchase and pledging properties as collateral for new loans contrary to the stated purpose of the UHS program.

14. All in violation of Title 18, United States Code, Section 1349.

COUNT 2
(Wire Fraud)

15. The grand jury realleges paragraphs 1-9 as if fully set forth herein.

16. On or about January 19, 2007, in the State and District of Minnesota and elsewhere, the defendants,

RICHARD SCOTT SPADY and
MICHELE DENISE SENGSTOCK,

aiding and abetting each other and having devised and intending to devise a scheme and artifice to defraud, and to obtain money and property by means of false and fraudulent pretenses, representations, and promises, for the purpose of executing the scheme and artifice, and attempting to do so, transmitted and caused to be transmitted by means of wire communication in interstate commerce the following writings, signs, signals, pictures and sounds: a $163,314.59 wire transfer from HFN Wholesale Lending account XXXXX0020 in California to U.S. Bank account XXXXXXXX8460 in Minnesota.

17. All in violation of Title 18, United States Code, Sections 1343 and 2.

COUNT 3
(Mail Fraud)

18. The grand jury realleges paragraphs 1-9 as if fully set forth herein.

19. On or about April 13, 2007, in the State and District of Minnesota and elsewhere, the defendants,

RICHARD SCOTT SPADY and
MICHELE DENISE SENGSTOCK,

aiding and abetting each other and having devised and intending to devise a scheme and artifice to defraud, and to obtain money by means of false and fraudulent pretenses, representations, and promises and for the purpose of executing the scheme and artifice, and attempting to do so, placed and caused to be placed in a post office and authorized depository for mail matter, the following matter and things to be sent and delivered according to the directions thereon: a real estate closing package mailed from Bloomington, Minnesota to Cleveland, Ohio.

20. All in violation of Title 18, United States Code, Sections 1341 and 2.

COUNT 4
(Money Laundering)

21. Paragraphs 1-20 are hereby realleged and incorporated by reference.

22. On or about April 6, 2007, in the State and District of Minnesota and elsewhere, the defendant,

RICHARD SCOTT SPADY,

knowingly engaged in a monetary transaction in criminally derived property of a value greater than $10,000 in and affecting interstate and foreign commerce and which involved the proceeds of specified unlawful activity, as follows: SPADY issued check 1276 for $12,144.75 drawn on a UHS account funded by proceeds of the scheme to defraud described in this indictment.

23. All in violation of Title 18, United States Code, Sections 1957 and 2.

COUNT 5
(Money Laundering)

24. Paragraphs 1-20 are hereby realleged and incorporated by reference.

25. On or about April 13, 2007, in the State and District of Minnesota and elsewhere, the defendant,

MICHELE DENISE SENGSTOCK,

knowingly engaged in a monetary transaction in criminally derived property of a value greater than $10,000 in and affecting interstate and foreign commerce and which involved the proceeds of specified unlawful activity, as follows: SENGSTOCK obtained cashier's check no. 015606 payable to herself for $60,000 funded by proceeds of the scheme to defraud described in this indictment.

26. All in violation of Title 18, United States Code, Sections 1957 and 2.

FORFEITURE ALLEGATIONS

Counts 1-5 of this Indictment are hereby realleged and incorporated as if fully set forth herein by reference, for the purpose of alleging forfeitures pursuant to Title 18, United States Code Sections 981(a)(1)(C), 982(a)(1), and Title 28, United States Code, Section 2461(c).

As the result of the offenses alleged in Counts 1-3, defendants RICHARD SCOTT SPADY and MICHELE DENISE SENGSTOCK shall forfeit to the United States pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c), any and all property, real or personal, which constitutes or is derived from proceeds traceable directly or indirectly to the scheme to defraud charged in Counts 1-3 of this

Indictment, including the sum of money involved in the violations set forth in Counts 1-3.

As the result of the offenses alleged in Counts 4-5, defendants RICHARD SCOTT SPADY and MICHELE DENISE SENGSTOCK shall forfeit to the United States pursuant to Title 18, United States Code, Section 982(a)(1), any and all property, real or personal, involved in the violations charged in Counts 4-5, and in any property traceable thereto, including the sums of money involved in the violations set forth in Counts 4-5.

If any of the above-described forfeitable property is unavailable for forfeiture, the United States intends to seek the forfeiture of substitute property as provided for in Title 21, United States Code, Section 853(p), as incorporated by Title 18, United States Code, Section 982(b)(1) and Title 28 United States Code, Section 2461(c).

All in violation of Title 18, United States Code, Sections 981(a)(1)(C), 982(a)(2)(A), 1341, 1343, 1349 and 1957, and Title 28, United States Code, Section 2461(c).

A TRUE BILL

UNITED STATES ATTORNEY

FOREPERSON